

**SAUDI ELECTRICITY COMPANY**  
**(A Saudi Joint Stock Company)**

Unaudited condensed consolidated interim financial statements  
and independent auditors' review report for the nine months ended 30 September 2017

**SAUDI ELECTRICITY COMPANY****(A Saudi Joint Stock Company)****Condensed consolidated interim financial statements for the nine months ended 30 September 2017 (unaudited)**

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**KPMG Al Fozan & Partners**  
**Certified Public Accountants**  
KPMG Tower  
Salahudeen Al Ayoubi Road  
P. O. Box 92876  
Riyadh 11663  
Kingdom of Saudi Arabia

Telephone +966 11 874 8500  
Fax +966 11 874 8600  
Internet www.kpmg.com

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## **"AUDITORS' REPORT ON REVIEW OF CONSOLIDATED INTERIM FINANCIAL STATEMENTS"**

**The Shareholders**  
**Saudi Electricity Company**  
**Saudi Joint stock Company**  
**Riyadh, Kingdom of Saudi Arabia**

### ***Introduction***

We have reviewed the accompanying 30 September 2017 condensed consolidated interim financial statements of **Saudi Electricity Company** "the Company" and its subsidiaries (collectively referred to as "the Group") which comprises:

- the condensed consolidated statement of financial position as at 30 September 2017;
- the condensed consolidated statement of income for the three-month and nine-month periods ended 30 September 2017;
- the condensed consolidated statement of comprehensive income for the three-month and nine-month periods ended 30 September 2017;
- the condensed consolidated statement of changes in equity for the nine-month period ended 30 September 2017;
- the condensed consolidated statement of cash flows for the nine-month period ended 30 September 2017; and
- notes to the condensed consolidated interim financial statements.

Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

### ***Scope of review***

We conducted our review in accordance with the International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' that is endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### ***Conclusion***

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 September 2017 condensed consolidated interim financial statements of the Saudi Electricity Company and its subsidiaries are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia.

**For KPMG Al Fozan & Partners**  
**Certified Public Accountants**

Abdullah Hamad Al Fozan  
License No. 348

Date: 6 November 2017

Corresponding to: 17 Safar 1439H



**SAUDI ELECTRICITY COMPANY**  
**(A Saudi Joint Stock Company)**  
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)**  
**AS AT 30 SEPTEMBER 2017**  
(All amounts are in thousands Saudi Riyals unless otherwise stated)

	<b>Note</b>	<b>30 September 2017</b>	<b>31 December 2016</b>
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment- net	<b>9</b>	<b>396,453,934</b>	<b>374,009,392</b>
Investment property	<b>10</b>	<b>535,144</b>	<b>538,595</b>
Intangible assets- net		<b>438,917</b>	<b>394,311</b>
Equity-accounted investees		<b>1,599,189</b>	<b>1,570,338</b>
Held-to-maturity investments		<b>178,213</b>	<b>228,893</b>
Available-for-sale financial assets		<b>290,952</b>	<b>290,952</b>
<b>Total non-current assets</b>		<b>399,496,349</b>	<b>377,032,481</b>
<b>Current assets</b>			
Inventories	<b>11</b>	<b>6,672,851</b>	<b>6,997,552</b>
Receivables from Electricity consumers receivables- net		<b>31,110,631</b>	<b>28,564,041</b>
Loans and advances		<b>1,957,189</b>	<b>3,290,970</b>
Prepayments and other receivables		<b>4,105,358</b>	<b>4,203,790</b>
Cash and cash equivalents		<b>2,768,243</b>	<b>1,486,163</b>
<b>Total current assets</b>		<b>46,614,272</b>	<b>44,542,516</b>
<b>Total assets</b>		<b>446,110,621</b>	<b>421,574,997</b>

The accompanying notes from 1 to 30 form an integral part of these condensed consolidated interim financial statements.

**SAUDI ELECTRICITY COMPANY**  
**(A Saudi Joint Stock Company)**  
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)**  
**AS AT 30 SEPTEMBER 2017**  
(All amounts are in thousands Saudi Riyals unless otherwise stated)

	<b>Note</b>	<b>30 September 2017</b>	<b>31 December 2016</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	<b>12</b>	<b>41,665,938</b>	<b>41,665,938</b>
Statutory reserve	<b>14</b>	<b>2,863,305</b>	<b>2,863,305</b>
General reserve	<b>14</b>	<b>569,506</b>	<b>569,506</b>
Other reserves		<b>(136,469)</b>	<b>(118,975)</b>
Retained earnings		<b>32,500,001</b>	<b>20,618,023</b>
<b>Total equity</b>		<b>77,462,281</b>	<b>65,597,797</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Long term loans	<b>15.1</b>	<b>56,181,645</b>	<b>43,385,525</b>
Sukuk	<b>15.2</b>	<b>31,796,040</b>	<b>26,065,350</b>
Loans from the government	<b>15.3</b>	<b>43,876,349</b>	<b>42,411,517</b>
Employees' benefits obligation		<b>6,584,584</b>	<b>6,633,038</b>
Long term deferred revenue		<b>37,583,255</b>	<b>31,927,778</b>
Deferred government grants	<b>16</b>	<b>45,777,331</b>	<b>46,667,608</b>
Derivatives at fair value	<b>17</b>	<b>351,718</b>	<b>360,722</b>
Asset retirement obligation		<b>191,918</b>	<b>187,550</b>
<b>Total non-current liabilities</b>		<b>222,342,840</b>	<b>197,639,088</b>
<b>Current liabilities</b>			
Trade payables		<b>54,799,612</b>	<b>54,415,766</b>
Accruals and other payables		<b>5,357,530</b>	<b>6,832,304</b>
Provision for other liabilities and charges		<b>132,234</b>	<b>132,420</b>
Short term loans	<b>15.1</b>	<b>13,191,456</b>	<b>13,651,541</b>
Sukuk	<b>15.2</b>	<b>-</b>	<b>8,875,140</b>
Customer refundable deposits		<b>1,911,920</b>	<b>1,845,080</b>
Payable to the government	<b>18</b>	<b>58,099,070</b>	<b>58,099,049</b>
Advances from customers		<b>10,107,236</b>	<b>12,077,255</b>
Short term deferred revenue		<b>2,649,461</b>	<b>2,372,167</b>
Derivatives at fair value	<b>17</b>	<b>56,981</b>	<b>37,390</b>
<b>Total current liabilities</b>		<b>146,305,500</b>	<b>158,338,112</b>
<b>Total liabilities</b>		<b>368,648,340</b>	<b>355,977,200</b>
<b>Total equity and liabilities</b>		<b>446,110,621</b>	<b>421,574,997</b>

The accompanying notes from 1 to 30 form an integral part of these condensed consolidated interim financial statements.

**SAUDI ELECTRICITY COMPANY**  
**(A Saudi Joint Stock Company)**  
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF INCOME (UNAUDITED)**  
**FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017**  
(All amounts in thousands Saudi Riyals unless otherwise stated)

		<b>For the three months ended 30 September</b>		<b>For the nine months ended 30 September</b>	
	<b>Note</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Revenue	22	16,916,718	17,132,991	39,138,845	39,221,823
Cost of sales	23	(11,369,181)	(11,545,808)	(31,553,897)	(31,185,976)
<b>Gross profit</b>		<b>5,547,537</b>	<b>5,587,183</b>	<b>7,584,948</b>	<b>8,035,847</b>
General and administrative expenses		(279,477)	(253,563)	(970,545)	(883,266)
Other income- net	24	335,572	382,784	1,347,874	973,003
Waived municipality levy	25	-	-	6,119,546	-
Improving Human Resources Productivity Program	26	-	(110,257)	(231,846)	(110,257)
<b>Operating income for the period</b>		<b>5,603,632</b>	<b>5,606,147</b>	<b>13,849,977</b>	<b>8,015,327</b>
Finance income		2,177	83	3,457	25,107
Finance expense		(341,684)	(619,091)	(1,381,604)	(1,609,140)
<b>Finance costs - net</b>		<b>(339,507)</b>	<b>(619,008)</b>	<b>(1,378,147)</b>	<b>(1,584,033)</b>
Share in investment loss from equity accounted listed companies		-	(58,502)	(39,159)	(58,502)
<b>Profit for the period before zakat</b>		<b>5,264,125</b>	<b>4,928,637</b>	<b>12,432,671</b>	<b>6,372,792</b>
Zakat	21	(2,260)	(229)	(3,441)	(688)
<b>Net profit for the period</b>		<b>5,261,865</b>	<b>4,928,408</b>	<b>12,429,230</b>	<b>6,372,104</b>
<b>Earnings per share</b> (expressed in SR per share)					
Basic and diluted earnings per share	27	1,26	1,18	2,98	1,53

The accompanying notes from 1 to 30 form an integral part of these condensed consolidated interim financial statements.

**SAUDI ELECTRICITY COMPANY**

**(A Saudi Joint Stock Company)**

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF OTHER COMPREHENSIVE INCOME (UNAUDITED)**

**FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017**

(All amounts in thousands Saudi Riyals unless otherwise stated)

	<b>For the three months ended 30 September</b>		<b>For the nine months ended 30 September</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Net profit for the period</b>	<b>5,261,865</b>	<b>4,928,408</b>	<b>12,429,230</b>	<b>6,372,104</b>
<b>Other comprehensive income</b>				
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Cash flow hedges – effective portion	12,574	64,237	(17,494)	31,221
Total items that may be reclassified subsequently to profit or loss	12,574	64,237	(17,494)	31,221
<b>Other comprehensive (loss) for the period</b>	<b>12,574</b>	<b>64,237</b>	<b>(17,494)</b>	<b>31,221</b>
<b>Total comprehensive income for the period</b>	<b>5,274,439</b>	<b>4,992,645</b>	<b>12,411,736</b>	<b>6,403,325</b>

The accompanying notes from 1 to 30 form an integral part of these condensed consolidated interim financial statements.

**SAUDI ELECTRICITY COMPANY**  
**(A Saudi Joint Stock Company)**  
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**  
**FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017**  
**(All amounts in Thousands Saudi Riyals unless otherwise stated)**

	Other reserves						Total other reserves	Retained earnings	Total equity
	Share capital	Statutory reserve	General reserve	Derivatives at fair value	Employees end of service benefits	Change in fair value of available for sale investments			
	30 September 2017								
Balance as at 1 January 2017	41,665,938	2,863,305	569,506	(391,205)	253,908	18,322	(118,975)	20,618,023	65,597,797
Net profit for the period	-	-	-	-	-	-	-	12,429,230	12,429,230
Other comprehensive income	-	-	-	(17,494)	-	-	(17,494)	-	(17,494)
Total comprehensive income	-	-	-	(17,494)	-	-	(17,494)	12,429,230	12,411,736
Dividends paid to shareholders	-	-	-	-	-	-	-	(547,252)	(547,252)
Balance at 30 September 2017	41,665,938	2,863,305	569,506	(408,699)	253,908	18,322	(136,469)	32,500,001	77,462,281
	30 September 2016								
Balance at 1 January 2016	41,665,938	2,646,630	557,898	(516,176)	-	8,965	(507,211)	16,836,693	61,199,948
Net profit for the period	-	-	-	-	-	-	-	6,372,104	6,372,104
Other comprehensive income	-	-	-	31,221	-	-	31,221	-	31,221
Total comprehensive income	-	-	-	31,221	-	-	31,221	6,372,104	6,403,325
Dividends paid to shareholders	-	-	-	-	-	-	-	(547,252)	(547,252)
Balance at 30 September 2016	41,665,938	2,646,630	557,898	(484,955)	-	8,965	(475,990)	22,661,545	67,056,021

The accompanying notes from 1 to 30 form an integral part of these condensed consolidated interim financial statements.



**SAUDI ELECTRICITY COMPANY**  
**(A Saudi Joint Stock Company)**  
**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)**  
**FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017**  
(All amounts in thousands Saudi Riyals unless otherwise stated)

	<b>For the nine months ended 30</b>	
	<b>September</b>	
	<b>2017</b>	<b>2016</b>
<b><u>Cash flow from operating activities</u></b>		
Profit for the period before zakat	12,429,230	6,372,104
<b><u>Adjustments for:</u></b>		
Depreciation of property, plant and equipment	11,650,916	9,907,700
Charged Zakat	3,441	688
Amortisation of intangible assets	12,772	12,242
Amortisation of deferred government grant	(890,277)	(551,640)
Finance cost - net	1,378,147	1,584,034
Governmental borrowing interests	1,464,832	1,336,707
Provision for doubtful debts	269,083	279,842
Provisions for slow moving inventory	-	1,103
Gain on disposal of property, plant and equipment	(10,257)	(4,137)
Municipality levy waived	(6,119,546)	-
Employees end of service benefits	704,762	599,166
Share of loss on investments in associates	39,159	58,502
	<b>20,932,262</b>	<b>19,596,311</b>
<b><u>Changes in working capital:</u></b>		
Inventory	324,701	(1,723,354)
Electricity consumers receivables	(2,815,673)	(10,992,246)
Prepayment and other receivables	91,525	(207,200)
Loans and advances	1,329,056	1,041,030
Trade payables	6,503,392	11,806,740
Accruals and other payables	(1,858,160)	(889,585)
Customer refundable deposits	66,840	72,989
Advances from customers	(1,970,019)	446,654
Deferred revenue	5,932,771	3,285,231
Net finance cost paid	(1,005,560)	(1,111,959)
Zakat paid	(2,248)	(5,820)
Employee benefits obligation paid	(753,216)	(767,750)
<b>Net cash generated from operating activities</b>	<b>26,775,671</b>	<b>20,551,041</b>
<b><u>Investing activities</u></b>		
Payments for the acquisition of property, plant and equipment	(34,106,573)	(39,682,461)
Payments for the acquisition of investment in associated companies	(68,010)	(22,500)
Proceeds from sale of property, plant and equipment	24,824	28,016
Intangible assets	(57,378)	(1,139)
Proceeds from held to maturity investments	50,680	(19,307)
Loans to associated companies	4,725	-
<b>Net cash used in investing activities</b>	<b>(34,151,732)</b>	<b>(39,697,391)</b>
<b><u>Financing activities</u></b>		
Proceeds from borrowings	15,726,955	20,074,057
Repayments of borrowings and sukuk	(6,535,371)	(1,454,173)
Dividends paid	(533,443)	(533,756)
<b>Net cash generated from financing activities</b>	<b>8,658,141</b>	<b>18,086,128</b>
<b>Net change in cash and cash equivalents</b>	<b>1,282,080</b>	<b>(1,060,222)</b>
Cash and cash equivalents at the beginning of the period	1,486,163	2,231,078
<b>Cash and cash equivalents at the end of the period</b>	<b>2,768,243</b>	<b>1,170,856</b>

The accompanying notes from 1 to 30 form an integral part of these condensed consolidated interim financial statements.

## **SAUDI ELECTRICITY COMPANY**

### **(A Saudi Joint Stock Company)**

Notes to the condensed consolidated interim financial statements for the period ended 30 September 2017 (unaudited)

(All amounts in thousands Saudi Riyals unless otherwise stated)

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## **1 Corporate information**

The Saudi Electricity Company was formed pursuant to the Council of Ministers' Resolution Number 169 dated 11 Sha'ban 1419H corresponding to 29 November 1998, which reorganised the Electricity Sector in the Kingdom of Saudi Arabia by merging all local companies that provided electricity services (10 joint stock companies that covered most of the geographical areas of the Kingdom), in addition to the projects of the General Electricity Corporation, a governmental corporation belonging to the Ministry of Industry and Electricity (11 operating projects that covered various areas in the north of the Kingdom) into the Company.

The Company was founded pursuant to the Royal Decree No. M/16 dated 6 Ramadan 1420H corresponding to 13 December 1999, in accordance with the Council of Ministers' Resolution Number 153, dated 5 Ramadan 1420H corresponding to 12 December 1999 and the Minister of Commerce's Resolution Number 2047 dated 30 Dhul-Hijjah 1420H corresponding to 5 April 2000 as a Saudi joint stock company and registered in Riyadh under Commercial Registration Number 1010158683, dated 28 Muhurram 1421H corresponding to 3 May 2000.

The Company's principal activities are generation, transmission and distribution of electric power. The Company is the major provider of electric power all over the Kingdom of Saudi Arabia, serving governmental, industrial, agricultural, commercial and residential consumers.

The Company is a tariff-regulated company. Electricity tariffs are determined by the Council of Ministers based on recommendations from the Electricity and Co-generation Regulatory Authority (the "Authority") which was established on 13 November 2001 according to Council of Ministers' Resolution No. 169 dated 11 Sha'aban 1419H. The change on tariff was made through the Council of Ministers' Resolution Number 170 dated 12 Rajab 1421H and was effective from 1 Sha'aban 1421H corresponding to 28 October 2000 whereby the tariff on the highest bracket was set at a rate of 26 Halala per Kilowatts/hour.

This was further amended by the Council of Ministers in its Decision Number 333 dated 16 Shawwal 1430H, corresponding to 5 October 2009, which granted the Board of Directors of the Electricity and Co-generation Regulatory Authority the right to review and adjust the non-residential (commercial, industrial and governmental) electricity tariff and approve them as long as the change does not exceed 26 Halala for each kilowatt per hour, taking into consideration, among other matters, the electrical consumption at peak times. This tariff was implemented starting 19 Rajab 1431H, corresponding to 1 July 2010.

On 17 Rabi Awal 1437H corresponding to 28 December 2015, Council of Ministers issued its resolution number 95, increasing power products prices effective from 18 Rabi Awal 1437H corresponding to 29 December 2015, and increasing electricity consumption tariff for all consumers whereby the tariff on the highest bracket was set at a rate of 32 Halala per Kilowatts/hour starting from 1 Rabi Thani 1437H corresponding to 11 January 2016.

According to the Company's bylaws, the financial year begins on 1st January and ends on 31st December of each Gregorian year.

Saudi Electricity Company will be referred to as ("SEC" or "Company") or together with its subsidiaries as ("Group") throughout the financials.

The address of its registered headquarter is located in Riyadh, Kingdom of Saudi Arabia.

## **2 Basis of preparation**

The accompanying condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants (SOCPA).

For all periods up to the year ended December 31, 2016, SEC prepared and presented its statutory condensed consolidated interim financial statements in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia issued by (SOCPA).

For financial periods commencing January 1, 2017, and based on SOCPA's board of directors resolution to adopt the International Financial Reporting Standards, the Company is required to prepare and present its financial statements in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA (collectively referred to "IFRS as endorsed in KSA"). As part of this requirement, SEC has prepared these condensed consolidated interim financial statements.

These condensed consolidated interim financial statements considered to be the third condensed consolidated interim financial statements and for part of the period covered by the first annual financial statements prepared in accordance with IFRS as endorsed in KSA and accordingly IFRS 1 "First-time Adoption of International Financial Reporting Standards" endorsed in KSA has been applied.

An explanation of how the transition to IFRS has affected the previously reported equity as at September 30, 2016; and the condensed consolidated interim statement of income and the comprehensive income of SEC for the three and nine months ended September 30, 2016, including the nature and effect of significant changes in accounting policies from those used in SEC's financial statements for the year ended December 31, 2016 is provided in Note 5.

## **SAUDI ELECTRICITY COMPANY**

### **(A Saudi Joint Stock Company)**

Notes to the condensed consolidated interim financial statements for the period ended 30 September 2017 (unaudited)

(All amounts in thousands Saudi Riyals unless otherwise stated)

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## **2 Basis of preparation (continued)**

These condensed consolidated interim financial statements should be read in conjunction with SEC's SOCPA GAAP annual financial statements for the year ended December 31, 2016, and SEC's interim financial statements for the quarter ended March 31, 2017 prepared in accordance with IFRS applicable to interim financial statements.

### **2.1 Changes in accounting policies and disclosures**

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's condensed consolidated interim financial statements are disclosed below.

The Group intends to adopt these standards, if applicable, when they become effective.

### **2.2 Standards issued but not yet applied**

#### ***IFRS 9: Financial Instruments***

IFRS 9, "Financial Instruments" addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard does not need to be applied until 1 January 2018 but is available for early adoption. The Group elected not to early adopt IFRS 9.

The Group's financial assets would appear to satisfy the conditions for classification as either amortised cost or fair value through other comprehensive income (FVOCI) or fair value through statement of income and hence there will be no significant change to the accounting for those assets.

Accordingly, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities except for the derivatives. The derecognition rules remain consistent with the requirements of IAS 39 Financial Instruments Recognition and Measurement and have not been changed.

Under the new hedge accounting rules, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts.

While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

#### ***IFRS 15: Revenue from Contracts with Customers***

The International Accounting Standards Board (IASB) has issued a new standard for the recognition of revenue IFRS 15 Revenue from contracts with customers". This will replace IAS 18 Revenue which covers revenue arising from the sale of goods and the rendering of services and IAS 11 Construction Contracts which covers revenue from construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim periods within annual reporting periods beginning on or after 1 January 2018, and allows early adoption. The Group elected not to early adopt IFRS 15.

## **SAUDI ELECTRICITY COMPANY**

### **(A Saudi Joint Stock Company)**

Notes to the condensed consolidated interim financial statements for the period ended 30 September 2017 (unaudited)

(All amounts in thousands Saudi Riyals unless otherwise stated)

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## **2.2 Standards issued but not yet applied (continued)**

### ***IFRS 16: Leases***

The IASB has issued a new standard for the recognition of leases IFRS 16, "Leases". This standard will replace:

- IAS 17 Leases
- IFRIC 4 Whether an arrangement contains a lease
- SIC 15 Operating leases – Incentives
- SIC-27 Evaluating the substance of transactions involving the legal form of a lease

Under IAS 17, lessees were required to make a distinction between a finance lease (on statement of financial position) and an operating lease (off statement of financial position). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption of certain short-term leases and leases of low-value assets.

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The mandatory date for adoption for the standard is 1 January 2019, and allows early adoption. The Group elected not to early adopt IFRS 16.

The Group is currently assessing the impact of the application of the standards and the amendments mentioned above.

## **2.3 Measurement basis**

These condensed consolidated interim financial statements have been prepared under the historical cost basis, except for available-for-sale assets, and financial assets and financial liabilities (including derivative instruments that have been measured at fair value.

As required by the Capital Market Authority ("CMA") through its circular dated 16th October 2016, SEC needs to apply the cost model to measure the property, plant and equipment, investment property, and intangible assets upon adopting the IFRS for three years period starting from the IFRS adoption date.

The condensed consolidated interim financial statements are presented in Saudi Riyals ("SR"), which is also the Companies functional and presentation currency.

The Company's Board of Directors has authorised these condensed consolidated interim financial statements for issuance on 5 November 2017 corresponding to 16 Safar 1439 H.

## **3 Significant accounting policies**

Accounting policies adopted in preparation of these unaudited condensed consolidated financial statements are described in notes 3 and 4 of the Group's condensed consolidated interim financial statements for the three months ended March 31, 2017.

## **4 Consolidation**

The condensed consolidated interim financial statement include the financial statements of the Group and its subsidiaries which was described in notes 4.1 of the Company's condensed consolidated interim financial statements for the three months ended March 31, 2017.

**SAUDI ELECTRICITY COMPANY****(A Saudi Joint Stock Company)**

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(All amounts in thousands Saudi Riyals unless otherwise stated)

**4 Consolidation (continued)**

These condensed consolidated interim financial statements are prepared for Saudi Electricity Company and its subsidiaries (collectively referred to as "the Group"). Details of subsidiaries are as follows:

<b>Company Name</b>	<b>Country of incorporation and place of business</b>	<b>Proportion of ordinary shares held by parent 30 September 2017 (%)</b>	<b>Principal activity</b>
National Grid S.A. Company	Kingdom of Saudi Arabia	100	Transmission
Dawiyat Telecom Company	Kingdom of Saudi Arabia	100	Telecom
Electricity Sukuk Company	Kingdom of Saudi Arabia	100	Financing
Saudi Electricity for Projects Development Co.	Kingdom of Saudi Arabia	100	Projects Management
Saudi Electricity Global Sukuk Company	Cayman Islands	100	Financing
Saudi Electricity Global Sukuk Company – 2	Cayman Islands	100	Financing
Saudi Electricity Global Sukuk Company – 3	Cayman Islands	100	Financing
Saudi Power Procurement Company(*)	Kingdom of Saudi Arabia	100	Single buyer

\* The Company has established a wholly owned new subsidiary (Saudi Power Procurement Company) registered in the Kingdom of Saudi Arabia under commercial registration number 1010608947 dated 31 May 2017. The main activity of the Company is to carry out the single buyer's activity in accordance with the license issued by the Electricity and Co-Generation Regulatory Authority. This includes the introduction of electricity generation projects, the purchase and sale of electricity and the signature necessary agreements which still does not carry any assets or liabilities and did not perform any material transactions. Accordingly, this new subsidiary does not have any balances to be consolidated under these consolidated interim financial statements.

<b>Joint Arrangements</b>	<b>Country of Registration</b>	<b>Holding percentage of Holding Company in ordinary shares %</b>
<b>30 September 2017</b>		
<b>a. Independent Energy Producers</b>		
Hajr Electricity Production Company	Kingdom of Saudi Arabia	50
Rabigh Electricity Company	Kingdom of Saudi Arabia	20
Dhuruma Electricity Company	Kingdom of Saudi Arabia	50
Al Morjan Electricity Company	Kingdom of Saudi Arabia	50
<b>b. Independent Water and Energy Producers</b>		
Water and Electricity Company	Kingdom of Saudi Arabia	50

\*\* Pursuant to the Council of Ministers Resolution No. 494 dated 5 Safar 1438H corresponding to 1 May 2017, it has been agreed to take necessary measures to transfer Company's share in Water and Electricity Company, one of the joint arrangements above, in full to the government's ownership which has been consolidated in the financial statements as the Group is working on the study of the existence of continuous control in accordance with the signed agreements.

**5 First time adoption of IFRS**

From the period beginning 1 January 2017, the Group is required to prepare its first set of condensed consolidated interim financial statements in accordance with the requirements of IFRS as endorsed by SOCPA in the KSA.

For reconciliation of SOCPA to IFRS condensed consolidated interim statement of financial position as at 1 January 2016 and 31 December 2016 along with accounting policies adopted, please refer to the condensed consolidated interim financial statements for the period ended 31 March 2017.

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**(All amounts in thousands Saudi Riyals unless otherwise stated)**
**5 First time adoption of IFRS (continued)**
**5.1 Reconciliation of SOCPA to IFRS condensed consolidated interim statement of equity as at 30 September 2016**

	Note	30 September 2016 SOCPA	Effects of transition to IFRS	30 September 2016 IFRS
<b>Equity</b>				
Share capital		41,665,938	-	41,665,938
Statutory reserve	5.4.1	2,629,210	17,420	2,646,630
General reserve		557,898	-	557,898
Other reserves	5.4.2	-	(475,990)	(475,990)
Cash flow hedging contracts	5.4.2	(523,917)	523,917	-
Retained earnings	5.4.3	19,954,504	2,707,041	22,661,545
<b>Total equity</b>		<b>64,283,633</b>	<b>2,772,388</b>	<b>67,056,021</b>

**5.2 Reconciliation of SOCPA to IFRS condensed consolidated interim statement of income for the period three and nine months ended 30 September 2016**

		For the three months ended 30 September 2016			For the nine months ended 30 September 2016		
	Note	30 September 2016 SOCPA	Effects of transition to IFRS	30 September 2016 IFRS	30 September 2016 SOCPA	Effects of transition to IFRS	30 September 2016 IFRS
Revenue	5.5.1	17,145,566	(12,575)	17,132,991	39,260,690	(38,867)	39,221,823
Cost of sales	5.5.2	(12,528,507)	982,699	(11,545,808)	(34,284,728)	3,098,752	(31,185,976)
<b>Gross profit</b>		<b>4,617,059</b>	<b>970,124</b>	<b>5,587,183</b>	<b>4,975,962</b>	<b>3,059,885</b>	<b>8,035,847</b>
General and administrative expenses	5.5.3	(199,232)	(54,331)	(253,563)	(667,205)	(216,061)	(883,266)
Other income – net	5.5.4	96,426	286,358	382,784	257,921	715,082	973,003
Improving Human Resources Productivity Program		(110,257)	-	(110,257)	(110,257)	-	(110,257)
<b>Operating income for the period</b>		<b>4,403,996</b>	<b>1,202,151</b>	<b>5,606,147</b>	<b>4,456,421</b>	<b>3,558,906</b>	<b>8,015,327</b>
Finance income		-	83	83	-	25,107	25,107
Finance costs		-	(619,091)	(619,091)	-	(1,609,140)	(1,609,140)
Finance costs - net	5.5.5	-	(619,008)	(619,008)	-	(1,584,033)	(1,584,033)
Share in investment loss from equity accounted listed companies		-	(58,502)	(58,502)	-	(58,502)	(58,502)
<b>Profit for the period before zakat</b>		<b>4,403,996</b>	<b>524,641</b>	<b>4,928,637</b>	<b>4,456,421</b>	<b>1,916,371</b>	<b>6,372,792</b>
Zakat	5.5.6	-	(229)	(229)	-	(688)	(688)
<b>Net profit for the period</b>		<b>4,403,996</b>	<b>524,412</b>	<b>4,928,408</b>	<b>4,456,421</b>	<b>1,915,683</b>	<b>6,372,104</b>

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**5 First time adoption of IFRS (continued)****5.3 Reconciliation of SOCPA to IFRS condensed consolidated interim statement of other comprehensive income for the period three and nine months ended 30 September 2016**

	Note	For the three months ended 30 September 2016			For the nine months ended 30 September 2016		
		30 September 2016 SOCPA	Effects of transition to IFRS	30 September 2016 IFRS	30 September 2016 SOCPA	Effects of transition to IFRS	30 September 2016 IFRS
<b>Profit for the period</b>	<b>(5-2)</b>	4,403,996	524,412	4,928,408	4,456,421	1,915,683	6,372,104
<b>Other comprehensive income:</b>							
<b><u>Items that may be reclassified subsequently to profit or loss:</u></b>							
Cash flow hedges – effective portion		-	64,237	64,237	-	31,221	31,221
<b>Other comprehensive income (loss) for the period</b>		-	64,237	64,237	-	31,221	31,221
<b>Total comprehensive income</b>		4,403,996	588,649	4,992,645	4,456,421	1,946,904	6,403,325

**5.4 Notes to the reconciliation of SOCPA to IFRS condensed consolidated interim statement of equity as at 30 September 2016****5.4.1 Interest in equity of joint operations**

The Group's interests in the equity of joint operations were as follows:

	30 September 2016
Statutory reserve	17,420
Other reserves*	38,961
Retained earnings **	(11,248)
	45,133

\* This amount represents the group's interest of the other comprehensive income reserves of the joint operations amounting to SR 443 million after less the elimination entries of SR 482 million.

\*\*This amount represents the group's interest of the joint operations retained earnings of SR 405 million less the elimination entries of SR 416 million.

**5.4.2 Other reserves**

The following IFRS adjustments have been recorded as at 30 September 2016:

	30 September 2016
Reclassification of the effective portion of the floating-to-fixed interest rate swap contracts	(523,917)
Group's interest in joint operations' equity (note 5.4)	38,961
Fair value change of available for sale financial assets	8,966
Other comprehensive income reserves as at 30 September 2016	(475,990)

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**5 First time adoption of IFRS (continued)****5.4 Notes to the reconciliation of SOCPA to IFRS condensed consolidated interim statement of equity as at 30 September 2016****5.4.3 Retained earnings**

	30 September 2016
<b>IFRS adjustments affecting the retained earnings:</b>	
Fully depreciated assets and componentisation of property, plant and equipment	5,589,648
Amortisation of deferred government grants at the date of transition	(3,688,706)
Re-measurement of post-employment benefits at the date of transition	(1,047,802)
Decrease in depreciation expense for the six months as a result of the fully depreciated assets and componentisation of property, plant and equipment	3,054,913
Expenses ineligible for capitalisation	(589,773)
Additional finance cost expensed under IFRS during the six months of 2016	(1,139,547)
Amortisation of government grants on the useful lives of the underlying assets during the six months of 2016	551,640
Amortisation of deferred revenue on a daily basis as required under IFRS	(13,311)
Post-employment benefits based on the actuarial valuation	1,227
Elimination of retained earnings pertaining to joint operations (previously accounted for using the equity method under SOCPA)	(11,248)
<b>Total IFRS adjustments</b>	<b>2,707,041</b>

**5.5 Notes to the reconciliation of SOCPA to IFRS condensed consolidated interim statement of income for the period ended 30 September 2016****5.5.1 Revenue**

Based on IFRS guidance, the Group has amended its amortisation basis for deferred revenue resulting in a reduction of SR 13.2 million. A further SR 25.5 million was reduced due to certain revenue arising from joint operations which has now been eliminated.

**5.5.2 Cost of sales**

The following IFRS adjustments have been recorded as at 30 September 2016:

	For the three months ended 30 September 2016	For the nine months ended 30 September 2016
Impact of changes in depreciation expense relating to fully depreciated assets and componentisation adjustments	1,012,459	2,969,799
Costs for the period that are ineligible for capitalisation under IFRS	(127,861)	(459,893)
Re-measurement Post-employment benefit charge for the period	(12,518)	126,575
Effect on cost of sales from the reversal of equity accounting of investments in joint operations that were recorded using the equity method under SOCPA (share of profits from these investments was netted off against cost of sales under SOCPA)	(50,761)	(56,358)
Reclassification of general and administrative expenses to operations and maintenance costs	133,002	429,151
Elimination of the Group's share in the income of joint operations measured under equity method	28,378	89,478
	982,699	3,098,752



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**5 First time adoption of IFRS (continued)****5.5 Notes to the reconciliation of SOCPA to IFRS condensed consolidated interim statement of income for the period ended 30 September 2016****5.5.3 General and administrative expenses**

The following IFRS adjustments have been recorded as at 30 September 2016:

	For the three months ended 30 September 2016	For the nine months ended 30 September 2016
Impact of changes in depreciation expense relating to fully depreciated assets and componentisation adjustments	25,480	85,114
Costs for the period that are ineligible for capitalisation under IFRS	(32,312)	(129,880)
Re-measurement of post-employment benefit liability for the period	(4,591)	48,958
Board of Directors' remuneration for the period that was previously recorded directly in equity		(932)
Reclassification of cost of sales, other income and expenses to general and administrative expenses	(5,748)	(22,046)
Group's share of investments' results that are classified as joint operations under IFRS	(37,160)	(197,275)
	(54,331)	(216,061)

**5.5.4 Other income, Net**

Other income are mainly adjusted by the amortisation of the government grants (deferred income) and their classification as other income. Previously, these grants were amortised based on the related loan repayment period while it is based on there

**5.5.5 Finance costs, net**

The following IFRS adjustments have been recorded as at 30 September 2016:

	For the three months ended 30 September 2016	For the nine months ended 30 September 2016
Finance costs ineligible for capitalisation under IFRS	(472,637)	(1,139,547)
Group's share of investments' results that are classified as joint operations under IFRS during the period	(74,020)	(280,957)
Employees' end of service benefits	(58,103)	(174,304)
	(14,248)	10,775
	(619,008)	(1,584,033)

**5.5.6 Zakat**

The IFRS adjustment to Zakat is related to the Group's share in the results of the joint operations during the period.

**6. Financial risk management****6.1 Fair-value measurement**

The Group measures its financial instruments at fair value at reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- ☐ In the principal market for the asset or liability, or
- ☐ In the absence of a principal market, in the most advantageous market for the asset or liability.

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**6 Financial risk management (continued)****6.1 Fair-value measurement (continued)**

For assets and liabilities that are recognised in the condensed consolidated interim statement of financial position on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 September 2017.

	note	30 September 2017			Total
		Level 1	Level 2	Level 3	
<b>Assets</b>					
Available-for-sale investments	6-3	-	-	290,952	290,952
<b>Total assets</b>		-	-	<b>290,952</b>	<b>290,952</b>
<b>Liabilities</b>					
Derivatives financial instruments at fair value	6-2	-	408,699	-	408,699
<b>Total liabilities</b>		-	<b>408,699</b>	-	<b>408,699</b>

The following table presents the group's financial assets and liabilities that are measured at fair value. No significant change has occurred for the year ended 31 December 2016.

	note	31 December 2016			Total
		Level 1	Level 2	Level 3	
<b>Assets</b>					
Available-for-sale investments	6-3	-	-	290,952	290,952
<b>Total assets</b>		-	-	<b>290,952</b>	<b>290,952</b>
<b>Liabilities</b>					
Derivatives financial instruments at fair value	6-2	-	398,112	-	398,112
<b>Total liabilities</b>		-	<b>398,112</b>	-	<b>398,112</b>

**6.2 Valuation techniques used to derive level 2 fair-value**

Level 2 hedging derivatives interest rate swaps ('IRS'). Interest rate swaps are fair valued using the mark-to-market value (or fair value) of the interest rate swap technique. The effects of discounting are generally insignificant for Level 2 derivatives.

**6.3 Fair value measurements using significant unobservable inputs (Level 3)**

The Group has four available-for-sale financial assets i.e., 8% Stake in Shuaiba Water and Electricity Company (SWEC), 8% Stake in Shuqaiq Water and Electricity Company, 5% Stake in Jubail Water and Power Company (JWAP), and 8% Stake in Shuaibah Expansion Holdings Company (SEHO). The fair valuation of these four investments is carried out using the dividend valuation model (DVM).

In accordance with this model, the expected future dividends from the investments are projected (the historical dividend pay-out pattern is used as a basis for future projections over the investment horizon), and discounted using the cost of equity as the relevant discount rate to ascertain the fair value of these investments.

There are unrealised gains for the period included in other comprehensive income ('change in fair-value of available-for-sale investment').

Projected dividends and cost of equity (Ke) are the main input variables for the utilised model for the fair valuation of AFS Investments. An increase/decrease of 5% in the cost of equity (Ke) will lead to an increase/decrease of SR 12.2 million in the fair valuation of AFS investments.

A 5% increase/decrease in the projected dividends will lead to an increase/decrease of SR 14.5 million in the fair valuation of AFS investments.

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## 6 Financial risk management (continued)

### 6.4 Fair value of financial assets and liabilities measured at amortised cost

The fair value of the following financial assets and liabilities is reasonably approximate to their carrying amount:

- Trade receivables
- Other current financial assets
- Cash and cash equivalents
- Trade and other payables
- Borrowings
- Sukuks
- Other current financial liabilities

## 7 Seasonality of operations

The Group's financial results for this nine-month period are not necessarily indicative of results to be expected for the full year.

The company is affected by changes in seasonal weather and consumers behaviours.

The operations and revenues of the Group are affected by seasonal weather changes during the year. Revenues are materially lower during the winter months due to lower consumption of electricity whereas higher revenues are earned during summer months due to the increase in consumption of electricity as a result of high temperatures experienced in the Kingdom of Saudi Arabia during these months. Therefore, the results of operations for this interim period (third quarter of year 2017) may not be an accurate indication of the actual results for the full year.

## 8 Operating segments and the future restructuring of the Group's activities

The Group's main operating activities are divided into generation, transmission and distribution of electric power and customer services activities. These activities complement each other in delivering electricity to the consumer. The Group's revenue is currently recognised from selling electricity to the end consumer based on the official tariff set by the government. All the Group's operations are based in the Kingdom of Saudi Arabia.

Following is a description of the Group's main operating segments:

**Generation:** Generation and provision of electricity power;

**Transmission:** transmission of power from generation stations using the transmission network to the distribution network and operation and maintenance of the electricity transmission system;

**Distribution and customer services:** Receipt of power from the transmission network and distribute it to Company's consumers. It is also engaged in issuance, distribution and collection of electric consumption bills.

The Company has established a wholly owned new subsidiary (Saudi Power Procurement Company) registered in the Kingdom of Saudi Arabia under commercial registration number 1010608947 dated 31 May 2017. The main activity of the Company is to carry out the single buyer's activity in accordance with the license issued by the Electricity and Co-Generation Regulatory Authority. This includes the introduction of electricity generation projects, the purchase and sale of electricity and the signature necessary agreements which still does not carry any assets or liabilities and did not perform any material transactions. Accordingly, it is expected that the company will be separated into an independent entity in accordance with further decisions and directions.

The Company is currently implementing an integrated plan which aims to split its principal activities to different independent entities and develop inter-selling prices. Therefore, revenues and expenses will be specified for each company separately upon completion of this split process to assess the performance of each activity and the results of its operation separately. As part of the plan, National Grid S.A. Company was established and basis of inter-group transaction agreements were approved by the Board of Directors. The National Grid S.A. Company started its transmission activities on 1 January 2012.

The financial information of Saudi Electricity Company set out in the table below includes the generation, distribution and customer services segments as well as the head office, as the procedures of splitting the generation and distribution segments are still in process – up to date of consolidated financial statements preparation date- as part of the Company's integrated plan.

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**8 Operating segments and the future restructuring of the Group's activities (continued)****For the nine-month period ended 30 September 2017**

	<b>Saudi Electricity Company</b>	<b>National Grid S.A. Company</b>	<b>Joint operations</b>	<b>Other Subsidiaries</b>	<b>Inter-Group Balances</b>	<b>Total</b>
Revenue	38,881,282	7,894,176	1,767,961	21,503	(9,426,077)	39,138,845
Depreciation	(7,219,954)	(3,949,812)	(183,229)	-	-	(11,352,995)
Other	(27,237,903)	(1,210,704)	(1,178,371)	(6,452)	9,432,528	(20,200,902)
Cost of revenue	(34,457,857)	(5,160,516)	(1,361,600)	(6,452)	9,432,528	(31,553,897)
Net profit for the period	11,714,883	553,185	160,444	718	-	12,429,230

**For the three-month period ended 30 September 2017**

Revenue	16,655,346	2,810,458	822,006	7,078	(3,378,170)	16,916,718
Depreciation	(2,480,694)	(1,407,904)	(14,221)	-	-	(3,902,819)
Other	(9,841,756)	(379,364)	(623,413)	(2,123)	3,380,294	(7,466,362)
Cost of revenue	(12,322,450)	(1,787,268)	(637,634)	(2,123)	3,380,294	(11,369,181)
Net profit for the period	4,878,379	313,132	68,955	1,399	-	5,261,865

**As at 30 September 2017**

	<b>Saudi Electricity Company</b>	<b>National Grid S.A. Company</b>	<b>Joint operations</b>	<b>Other Subsidiaries</b>	<b>Inter-Group Balances</b>	<b>Total</b>
Property, plant and equipment	250,827,203	134,134,866	11,491,865	-	-	396,453,934
Total assets	399,976,537	137,532,827	13,067,982	278,519	(104,745,244)	446,110,621
Total liabilities	327,092,797	122,020,336	11,436,056	183,767	(92,084,616)	368,648,340

**For the nine-month period ended 30 September 2016**

	<b>Saudi Electricity Company</b>	<b>National Grid S.A. Company</b>	<b>Joint operations</b>	<b>Other Subsidiaries</b>	<b>Inter-Group Balances</b>	<b>Total</b>
Revenue	39,199,950	6,174,450	1,757,243	48,985	(7,958,805)	39,221,823
Depreciation	(5,884,904)	(3,582,663)	(189,897)	-	-	(9,657,464)
Other	(27,149,120)	(1,174,417)	(1,163,779)	(14,695)	7,973,499	(21,528,512)
Cost of revenue	(33,034,024)	(4,757,080)	(1,353,676)	(14,695)	7,973,499	(31,185,976)
Net profit for the period	6,574,638	(341,930)	107,656	31,740	-	6,372,104

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**8 Operating segments and the future restructuring of the Group's activities (continued)**

For the three-month period ended 30 September 2016

Revenue	17,136,404	2,107,107	518,161	7,358	(2,636,039)	17,132,991
Depreciation	(1,999,457)	(1,217,246)	(61,043)	-		(3,277,746)
Other	(10,210,539)	(358,674)	(334,888)	(2,208)	2,638,247	(8,268,062)
Cost of revenue	(12,209,996)	(1,575,919)	(395,931)	(2,208)	2,638,247	(11,545,807)
Net profit (loss) for the period	4,916,356	(27,037)	35,249	3,840		4,928,408

As at 31 December 2016

Property, plant and equipment	248,452,535	114,259,659	11,297,198	-		374,009,392
Total assets	402,901,758	115,536,536	12,759,229	292,661	(109,915,187)	421,574,997
Total liabilities	342,376,505	100,577,231	11,250,094	173,192	(98,399,822)	355,977,200

**9 Property, plant and equipment- net**

As at 30 September 2017, the cost of property, plant and equipment is SR 604 billion (31 December 2016: SR 570 billion). Accumulated depreciation is SR 208 billion (31 December 2016: SR 196.3 billion). The group has made additions to property, plant and equipment during the nine months ended 30 September 2017 amounting SR 39.7 billion of which SR 38 billion was transferred from projects under construction. The additions to projects under construction was SR 32.5 billion. The net book value of the disposed assets is SR 15.2 million. (31 December 2016: SR 98.12 million)

Interest on projects under implementation was capitalized at SR 2.4 billion

**10 Investment property**

The carrying value of investment property is SR 535 million as at 30 September 2017 (31 December 2016: 539 million). Management performed an independent valuation as at 31 December 2016 and determined the fair value of investment property to SR 1.4 billion. Management consider that the fair value as at 30 September 2017 is not significantly different from the fair value as at 31 December 2016. An independent valuation of the Group's land classified as investment property was performed by independent evaluators to determine the fair value of the land at 31 December 2016. The fair values of the properties have been determined by M/S Medad Valuation Advisory Int. Co. Limited.

The following table sets out the valuation techniques used in the determination of fair value of investment property, as well as the key unobservable inputs used in the valuation models.

The fair value measurement information in accordance with IFRS 13 at 31 December 2016 are given below.

	Fair value measurements at 31 December 2016 using		
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Fair-value measurements			
- Land		1,398,402	

*Valuation techniques used to derive Level 2 fair values*

Level 2 fair values of land have been generally derived using the sales comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as property size. The most significant input into this valuation approach is price per square meter.

The real estate valuation followed by the Group is in line with the International Valuation Standards Council ("IVSC") as well as Royal Institution of Chartered Surveyors ("RICS").

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**11 Inventories**

	30 September 2017	31 December 2016
Generation plant materials and supplies	2,985,691	2,951,572
Distribution network materials and supplies	2,530,289	2,818,450
Transmission network materials and supplies	440,241	326,070
Fuel and oil	963,273	949,775
Other	224,959	437,083
	<b>7,144,453</b>	<b>7,482,950</b>
Less: Write-down to net realisable value	<b>(471,602)</b>	<b>(485,398)</b>
<b>Total</b>	<b>6,672,851</b>	<b>6,997,552</b>

**12 Share capital**

The Company's share capital is divided into 4,166,593,815 shares amounting to total SR 41,665,938,150 with nominal value of SR 10 per share. The ownership of the shares to the government of the Kingdom of Saudi Arabia in the Company's share capital of 74.31% has been transferred to the General Investment Fund pursuant No. 47995 dated 19 Shawwal 1438H corresponding to 13 July 2017.

**13 Transactions with owners, recognised directly in equity**

In accordance with the Company's by-laws, dividends of at least 5% of paid in capital, net of reserves, should be distributed to shareholders, with due care to the provisions of the Council of Ministers' Resolution No.169 dated 11 Sha'aban 1419H, whereby the Government has waived its share in the distributed dividends for a period of ten years from the date of the SEC's formation, provided that dividends do not exceed 10% of the par value of the shares. In cases where the distribution exceeds 10% of the shares' par value, the Government's share shall be treated similar to the share of other shareholders. The Government has agreed to extend this waiver for another ten years based on the Council of Ministers' Resolution No. 327 dated 24 Ramadan 1430H corresponding to 13 September 2009.

The General Assembly, in its meeting held on 19 April 2017, approved distributing of cash dividends for the year 2016 to shareholders amounting of SR 547 million (SR 0.70 per share) representing 7% of the par value per share (2015: SR 547 million).

**14 Reserves****A- Statutory reserve**

In accordance with the Company's bylaws which was amended to correspond to the new Companies' law and was endorsed in the extraordinary general assembly meeting dated 19 April 2017, 10% of net income for the year is transferred to the statutory reserve until the reserve equals 30% of the share capital.

**B- General reserve**

General reserve consists of the balances of the reserves that were recorded in the financial statements of the Saudi consolidated Electricity Company at the date of the merger, in addition to the collections of surcharge from individuals subsequent to 31 December 2001.

**15 Other non-derivative financial liabilities measured at amortised cost**

Movements in borrowings during the period are as follows:

	Borrowings	Sukuk	Government loans	Total
As at 1 January 2017	57,037,066	34,940,490	42,411,517	<b>134,389,073</b>
Proceeds from new borrowings	15,862,878	-	-	<b>15,862,878</b>
Repayments	(3,390,921)	(3,144,450)	-	<b>(6,535,371)</b>
Additions to deferred costs	(135,922)	-	-	<b>(135,922)</b>
Unwinding of government loan interest	-	-	1,464,832	<b>1,464,832</b>
<b>As at 30 September 2017</b>	<b>69,373,101</b>	<b>31,796,040</b>	<b>43,876,349</b>	<b>145,045,490</b>

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**15 Other non-derivative financial liabilities measured at amortised cost (continued)****15.1 Borrowings****15.1.1 Long term bank borrowings**

- (a) On 28 July 2008, the Group obtained a sharia-compliant loan for SR 6 billion from a syndicate of local banks which has been fully drawn. The loan is repayable over 22 equal semi-annual instalments starting 3 November 2009. The loan balance amounted to SR 1.64 billion as at 30 September 2017 (31 December 2016: SR 1.9 billion).
- (b) On 13 July 2009, the Group signed a financing agreement with the Public Investments Fund whereby the Group received a direct loan of SR 2.6 billion which has been fully drawn. The loan is repayable within 15 years over 24 equal semi-annual instalments starting 31 December 2012. The loan balance amounted to SR 1.5 billion as at 30 September 2017 (31 December 2016: SR 1.6 billion).
- (c) On 27 January 2010, the Group signed a financing agreement with the Export-Import Bank of the United States, and the Export Development Bank of Canada whereby the Group received a direct loan amounting to SR 4.1 billion (US\$ 1.1 billion) which has been fully drawn. The loan is repayable within 12 years over 23 equal semi-annual instalments starting 25 May 2010. The loan balance amounted to SR 1.4 billion as of 30 September 2017 (31 December 2016: SR 1.6 billion).
- (d) On 13 December 2010, the Group signed an agreement with a syndicate of local banks whereby the Group obtained a sharia compliant loan of SR 5 billion which has been fully drawn. The loan is repayable within 15 years over 26 equal semi-annual instalments starting 13 May 2013. The loan balance amounted to SR 3.3 billion as of 30 September 2017 (31 December 2016: SR 3.4 billion).
- (e) On 22 June 2011, the Group signed an agreement with Export and Import French Bank whereby the Group obtained a loan of SR 3.7 billion (US\$ 989.1 million) which has been fully drawn. The loan is repayable within 12 years over 24 equal semi-annual instalments starting 11 January 2012. The loan balance amounted to SR 1.9 billion as of 30 September 2017 (31 December 2016: SR 2.2 billion).
- (f) On 29 March 2012, the Group signed a loan agreement guaranteed by two Export Korean banks (K Shore and K Exim) where a syndicate of international banks participated in financing the loan led by HSBC Group, Tokyo-Mitsubishi Bank, Sumitomo Mitsui Banking Corporation, Mizuho Bank and KfW Bankengruppe. The loan amount is SR 5.3 billion (US\$ 1.4 billion) which has been fully drawn. The loan is repayable within 12 years over 24 equal semi-annual instalments starting 7 May 2015. The loan balance amounted to SR 4.15 billion as of 30 September 2017 (31 December 2016: SR 4.3 billion).
- (g) On 18 December 2013, the Group signed a loan agreement guaranteed by two Export Japanese banks (NEXI) and (JBIC) where Export Japanese Bank (JBIC), Tokyo-Mitsubishi Bank, and Mizuho Bank participated in financing the loan. The amount of the loan is SR 1.4 billion (US\$ 366 million). The loan is repayable within 12 years over 24 equal semi-annual instalments starting 27 July 2015. The loan balance amounted to SR 0.9 billion as of 30 September 2017 (31 December 2016: SR 1 billion).
- (h) On 19 December 2013, the Group signed a loan agreement guaranteed by two export Korean banks (K Shore and K Exim), where the export Korean banks, and various international banks, Tokyo-Mitsubishi Bank, Mizuho Bank, Sumitomo Mitsui Banking Corporation, HSBC Group, Deutsche Bank and KfW IPEX-Bank have participated in financing the loan. The amount of the loan is SR 6.1 billion (US\$ 1.6 billion) which has been fully drawn. The loan is repayable within 12 years with a grace period of 3 years. The loan balance amounted to SR 5.9 billion as of 30 September 2017 (31 December 2016: SR 6.1 billion).
- (i) On 15 May 2016, the Company signed a loan agreement guaranteed by Korean Export Credit Agency, K-EXIM, where a direct loan from K Exim and syndicate of international banks participated in financing the loan led by Bank of Tokyo-Mitsubishi Bank, Banco Santander, Deutsche Bank, The loan amount is SR 3.3 billion (US\$ 900 million) which has been fully drawn. The loan is repayable within 13 years over 24 equal semi-annual instalments starting 3 February 2018. The loan balance amounted to SR 3.4 billion as of 30 September 2017 (31 December 2016: SR 3.4 billion).
- (j) On 29 June 2016, the Group signed a loan agreement with China Bank for trading and manufacturing, The amount of the loan is SR 5.6 billion (USD 1,5 billion) which has been fully drawn. The loan is repayable over 5 years in 6 semi-annual instalments starting from 20 December 2018. The loan balance amounted to SR 5.6 billion as at 30 September 2017 (31 December 2016: SR 5.6 billion).
- (k) On 19 September 2016, the Group obtained a sharia-compliant loan with a group of local banks, the amount of the loan is SR 5 billion. The loan is repayable over seven years in 11 semi-annual instalments starting from 19 September 2018.

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**16 Other non-derivative financial liabilities measured at amortised cost (continued)****15.1 Borrowings (continued)****15.1.1 Long term bank borrowings (continued)**

On March 26, 2017, the aforementioned murabaha financing agreement was amended. The loan was raised from SR 3 billion to SR 8 billion. The additional funding was obtained from four local banks: Arab National Bank, National Commercial Bank, Banque Saudi Fransi and Samba Financial Group. The loan balance amounted to SR 8 billion as at 30 September 2017 (31 December 2016: SR 5 billion).

- (l) On 27 October 2016, the Group signed a financing agreement with a number of international banks such as Banco Santander and Credit Agricole Group under which the Group obtained a loan of US\$ 420 million (SR 1.575 billion). This facility is extended to 12.77 year and is obtained by a guarantee of Korean Commercial Insurance Company and no guarantees have been offered by the Company. As at 30 September 2017, the utilised amount of this facility amounted to SR 1.5 billion (31 December 2016: SR 1.57 billion). The loan is repayable in 24 semi-annual instalments starting from 3 February 2018.
- (m) On March 16, 2017, the Group signed a financing agreement with Saudi British Bank under which the Group will receive a Shariah compliant loan of SR 1.5 billion payable in March 2020 and were fully drawn As at 30 September 2017.
- (n) On April 20, 2017, the Group signed a financing agreement with National Commercial Bank (NCB) under which the Group obtained a loan of SR 1.3 billion payable over 6 semi-annual instalments starting from October 25, 2017 and it is fully withdrawn As at 30 September 2017
- (o) On April 20, 2017, the Group signed a financing agreement with Alrajhi Bank under which the Group obtained a loan of SR 3.5 billion payable over 8 semi-annual instalments with grace period of 12 months starting from October 23, 2018 and it is fully withdrawn.
- (p) On 16 August 2017, the Group signed with a number of international banks, which are The Bank of Tokyo-Mitsubishi UFJ, Sumitomo Mitsui Banking Corporation, Mizuho Bank, Ltd, HSBC, Standard Chartered Bank, Natixis Banque Populaire, Citi Bank and First Abu Dhabi Bank, finance agreement through which the Group obtained borrowing in the amount of US\$ 1.75 billion (SR 6.56 billion) for five years and ends on 16 August 2022. This borrowing has been fully withdrawn. As at 30 September 2017, the balance of the borrowing amounted to SR 6.56 billion (31 December 2016: nil).

The long-term loans mentioned above are used in financing construction projects. These loans are secured by promissory notes signed by the Company for the nominal value of the loan plus the interest payments and/or murabaha margin.

**15.1.2 Short term bank borrowings**

- (a) On 1 December 2015, the Group signed a credit facility agreement in Saudi Riyals with National Commercial Bank (NCB) amounting to SR 0.7 billion. The utilised balance of this facility in the form of an Islamic Murabaha arrangement amounted to 0.5 billion as of 30 September 2017 (31 December 2016: SR 0.5 billion) and is due for repayment during August 2018.
- (b) On 16 December 2015, the Group signed a credit facility agreement in the form of an Islamic Murabaha arrangement with National Commercial Bank (NCB) and SAMBA Financial Group. The amount of the facility is SR 2.5 billion and is available for three years. The utilised balance of this facility amounted to SR 2.5 billion as of 30 September, 2017 (31 December 2016: SR 2.5 billion).
- (c) On 6 January 2016, the Group signed a US Dollars denominated credit facility agreement for three years. Financing was made by Bank of Tokyo-Mitsubishi UFJ, Mizuho Bank, Sumitomo Mitsui Banking Corporation, HSBC Group, JP Morgan Bank, Crédit Agricole Group and Deutsche Bank. This facility amounted to SR 5.25 billion (US\$ 1.4 billion). The utilised balance of this facility amounted to SR 4.7 billion as of 30 September 2017 (31 December 2016: SR 5.25 billion).
- (d) On 3 May 2016, the Group signed a credit facilities agreement with an Al Rajhi Bank, in Saudi Riyals amounting to SR 1 billion. The utilised balance of the facilities in the form of an Islamic Murabaha arrangement amounted to SR 1 billion as at 30 September 2017 (31 December 2016: SR 1 billion) and is due for repayment during February 2018.



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**15 Other non-derivative financial liabilities measured at amortised cost (continued)****15.1 Borrowings (continued)****15.1.2 Short term bank borrowings (continued)**

(e) On 16 June 2016, the Group signed a credit facilities agreement with SAMBA Bank amounting to SR 500 million. As at 30 September 2017, the utilised amount of these facilities amounted to SR 500 million (31 December 2016: SR 500 million).

(f) On 23 April 2017, the Group signed commercial payment facilities in Saudi Riyals with Bilad bank in the amount of SR 750 million. As at 30 September 2017, the balance of utilized facilities in this agreement amounted to SR 750 million and is payable during February 2018.

**Commercial payment facilities**

a. On 4 January 2017, the Group signed a trade payable facility agreement with JPMorgan Chase Bank N.A., Riyadh Branch for SAR 1 billion. As of 30 September 2017, the utilised amount of this facility amounted to SR 0.87 billion (31 December 2016: SR nil).

b. On 12 June 2017, the Group signed commercial payment facilities in Saudi Riyals with SABB in the amount of SR 1 billion. As at 30 September 2017, the balance of utilized facilities in this agreement amounted to SR 0.33 billion (31 December 2016: nil).

**15.1.3 Bank borrowings of the joint operations**

The Group's interest in the Joint operations' bank borrowings as at 30 September 2017 are as follows:

	30 September 2017		31 December 2016	
	Short Term	Long Term	Short Term	Long Term
Dhuruma Electricity Company	121,957	2,314,735	107,814	2,419,818
Rabigh Electricity Company	70,363	1,173,685	55,847	1,227,487
Hajr for Electricity Production Company	125,051	3,204,303	130,919	3,261,241
Al Mourjan for Electricity Production Co.	84,565	2,042,168	748,093	1,638,228
<b>Total</b>	<b>401,936</b>	<b>8,734,891</b>	<b>1,042,673</b>	<b>8,546,774</b>

**15.2 Sukuk**

Outstanding Sukuk payable as of 30 September 2017 are as follows:

**Local Sukuk**

Issue	Date of issue	Par value	Total issued amount	Maturity date
Sukuk 3	10 May 2017	SR 10 Thousand	SR 5.73 Billion	2030
Sukuk 4	30 January 2014	SR 1 Million	SR 4.5 Billion	2054

The above Sukuks have been, issued at par value with no discount or premium. The Sukuks bear a rate of return at SIBOR plus a margin payable quarterly from the net income received from the Sukuk assets held by the Sukuk custodian "Electricity Sukuk Company", a wholly owned subsidiary of the Group.

The Company has undertaken to purchase these Sukuks from Sukuk holders at dates specified in the relevant prospectus.

At each purchase date, the Company shall pay an amount of 5% to 10% of the aggregate face value of the Sukuk as bonus to the Sukuk holders. The purchase price is determined by multiplying Sukuk's par value at the percentage shown against the purchase date, as follows:

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**15 Other non-derivative financial liabilities measured at amortised cost (continued)****15.2 Sukuk (continued)****Local Sukuk (continued)**

	Percentage		
	90%	60%	30%
	First purchase year	Second purchase year	Third purchase year
Sukuk 3	2022	2024	2026

  

	Percentage		
	95%	60%	30%
	First purchase year	Second purchase year	Third purchase year
Sukuk 4	2024	2034	2044

The Group has repaid a partial amount of the third issuance of Sukuk (Sukuk 3) of SR 1.27 billion during the second quarter of 2017 which represent a partial repayment of Sukuk 3 (SR 7 billion). The remaining amount of Sukuk 3 was rescheduled to be purchased by May 2022.

**Global Sukuk**

- (a) During April 2012 the Group issued a global sukuk amounting to SR 6.6 billion equivalent to approximately (US\$ 1.75 billion). The issuance consists of two types of sukuk certificates. The first type amounting to US\$ 0.5 billion maturing after 5 years with fixed rate of 2.665%, the second type amounting to US\$ 1.25 billion maturing after 10 years with fixed rate of 4.211%. (The Group has repaid an amount of US\$ 0.5 billion (SR 1.9 billion) during the first quarter of 2017 which represents a repayment of the first portion of this sukuk).
- (b) During April 2013 the Group also issued a global sukuk amounting SR 7.5 billion equivalent to (US\$ 2 billion). The issuance consists of two types of sukuk certificates. The first type amounting to US\$ 1 billion matures after 10 years with a fixed rate of 3.473%. The second type amounting to US\$ 1 billion matures after 30 years with a fixed rate of 5.06%.
- (c) During April 2014 the Group also issued a global sukuk amounting to SR 9.4 billion equivalent to (US\$ 2.5 billion). The issuance consists of two types of sukuk certificates. The first type amounting to US\$ 1.5 billion mature after 10 years with a fixed rate of 4%. The second type amounting to US\$ 1 billion matures after 30 years with a fixed rate of 5.5%.

**15.3 Loans from the government**

- (a) Pursuant to the Council of Ministers' resolution number 169 dated 11 Sha'ban 1419H, the net dues of the Government to the Group and the net dues of the Group to the Government were determined in accordance with rules and procedures stipulated for in the minutes of meetings signed by the Minister of Industry and Electricity and the Minister of Finance and National Economy dated 27 Jumada Thani 1418H corresponding to 29 October 1997. The net difference payable to the Government by the Group, as determined at the Group of the business day preceding the issuance of the Royal Decree for the incorporation of the Group, is a non-interest bearing long term loan with a grace period of twenty five years starting from the date of the announcement of the incorporation of the Group. The loan is to be revisited later, subject to the financial condition of the Government and the Group.

The minutes of the meeting held on 21 Rajab 1422H corresponding to 8 October 2001 between the Minister of Industry and Electricity and the Minister of Finance and National Economy in which the initial amount of the Government loan was determined, states that the final settlement of Government accounts will be subject to the reconciliation for the claims of the Group from Government entities, and the loan amount shall be adjusted accordingly. During 2005, the Group finalised the amount due which included the claims of the Group and the amounts due to the Government and the agreement was signed between the Minister of Water and Electricity and the Minister of Finance on 15 Rajab 1426H corresponding to 19 August 2005 which brought the balance of Government loan amounted to SR 14.9 billion. The Group is in negotiation with lenders to find suitable alternative to amend the balances of these loans in order to enhance the financial position of the group and its important role of providing energy in all sectors of the country.

- (b) The Council of Ministers approved in its meeting held on Monday 12 Jumad Awal 1431H corresponding to 26 April 2010 to grant the Group a loan amounting to SR 15 billion repayable over 25 years. The loan will be paid to the Group within 2 years in accordance with an agreement made for this purpose between the Ministry of Finance and the Group. This loan was fully drawn as at 30 September 2017 (31 December 2016: fully drawn). The Group has recognised the amount received from the Government loan above discounted to its present value.

**15 Other non-derivative financial liabilities measured at amortised cost (continued)**

**15.3 Loans from the government (continued)**

- (c) The Council of Ministers approved in its meeting held on Monday 11 Rajab 1432H corresponding to 13 June 2011 to grant the Group a loan amounting to SR 51.1 billion repayable over 25 years. The loan has no interest charge and will be paid to the Group within 5 years in accordance with an agreement made for this purpose between the Ministry of Finance and the Group. An amount of SR 38.3 billion from this loan has been drawn as at 30 September 2017 (31 December 2016: SR 38.3 billion). The Group has recognised the amount received from the Government discounted to its present value.

However, the loan agreement provides that the loan amount will be reduced by proceeds collected by the Group due to any increase in the residential sector tariff. In light of the latest tariff amendments, the Group is currently determining the effect on the loan maturity or future payments not drawn yet.

- (d) The Council of Ministers approved in its meeting held on Monday 9 Jumad Awal 1435H corresponding to 10 March 2014 to grant the Group a loan amounting to SR 49.4 billion repayable over 25 years. The loan is interest free and will be paid to the Group within 5 years in accordance with an agreement made for this purpose between the Ministry of Finance and the Group. An amount of SR 16.1 billion from this loan has been drawn as at 30 September 2017 (31 December 2016: SR 16.1 billion). The Group has recognised the amount received from the Government loan above discounted to its present value.

**16 Deferred government grant**

Deferred government grants amounting to SR 45.7 billion as at 30 September 2017 (31 December 2016: SR 46.7 billion) representing the difference between the loan amounts received from the Government and the discounted present value of these loans (described in note 15.3).

**17 Derivative financial instruments**

The Group has interest rate hedging contracts with several banks to hedge the fluctuations in interest rates on loans for an amount of SR 7.6 billion on 30 September 2017 (31 December 2016: SR 9.76 billion) which includes a US Dollar portion representing approximately 15% of the notional amount. The hedging contracts are based on the swap between the Group and the banks of fixed rates against floating rates on the original loan amounts every six-months.

**18 Payable to the government**

The government payable includes SR 57 billion representing the accounts payable for fuel for the period from 5 April 2000 to 31 December 2012 pursuant to the ministerial minutes of meeting and resolutions which resolved to transfer the Group's liability to Saudi Arabian Oil Company ("Saudi Aramco") to the account of the Ministry of Finance according to specific procedures and approvals, the latest was before the end of 2013. Government payable also includes SR 0.9 billion related to assets transferred by the Royal Commission for Jubail and Yanbu.

**19 Contingent liabilities**

- (a) There is a dispute between the Group and Saudi Aramco for handling crude oil fees. The disputed amount since the Group's inception on 5 April 2000 to 30 September 2017 is approximately SR 4.9 billion (31 December 2016: SR 4.7 billion). The Group's management believes that there will be no liability on the Company based on the Royal Decree Number M/8 dated 25 Rajab 1415H as this matter was not discussed by the Ministerial Committee formed by the Royal Decree referred to above. Accordingly, the difference has not been recorded in the Group's accounting records. In addition, Saudi Aramco is supplying the Group with light fuel oil rather than heavy fuel oil to one of its stations. This has resulted in an accumulated difference of SR 2.9 billion as on 30 September 2017 (31 December 2016: SR 2.6 billion) not accounted for under liabilities in the Group's accounting records.
- (b) Saudi Aramco has also a claim for the settlement of its share in the annual dividends since inception to 31 December 2016, estimated at SR 3.1 billion. The Group believes that Saudi Aramco has no right for this claim during the first 20 years of its formation since it is a wholly owned government agency and accordingly, is governed by the Council of Ministers' resolution no. 169 dated 11 Sha'aban 1419H and Council of Ministers' resolution no. 327 dated 24 Ramadan 1430H on extending the Government's waiver of its rights in the profits distributed by the Saudi Electricity Company for another ten years.
- (c) The Group has provided guarantees to some of the commercial banks against its share for financing a loan granted to some of its investee companies. The guarantee amounted to US\$ 18 million equivalent to SR 67 million as of 30 September 2017 (31 December 2016: US\$ 18 million equivalent to SR 68 million).

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**19 Contingent liabilities (continued)*****Settlement of the dispute with Saudi Aramco***

The Group provides electricity power to governmental agencies, ministries and Saudi Aramco. The tariffs applied are approved by the Council of Ministers and are similar to the tariffs applied to other consumers, except for the tariff used for Saline Water Conversion Corporation (SWCC) which is in accordance with a Government resolution. As for the residential property of Saudi Aramco, the Group believes that these should be charged the commercial tariff. However, Saudi Aramco has objected to this tariff and is settling the electricity supplied to these the properties based on the industrial tariff.

The Council of Ministers has issued the resolution number 114 on 10 Rabi Thani 1430H corresponding to 5 April 2009 to end this dispute and to charge Saudi Aramco on the basis of the residential and commercial tariff instead of the industrial tariff. The Electricity and Co-generation Regulatory Authority ("the regulator") will have to specify the residential and commercial enterprises of Saudi Aramco. Accordingly, the Group, Saudi Aramco and the regulator held several meetings to settle this matter where the regulator has specified the disputed residential and commercial enterprises of Saudi Aramco.

The Group has executed the regulator decree number 49/432 dated 8 Jumad Awal 1432H corresponding to 11 April 2011 classifying Saudi Aramco electricity consumption tariff starting from 1 January 2012. Accordingly, the disputed residential and commercial enterprises mentioned above were identified, and the agreed upon tariff were applied on Saudi Aramco's consumption.

Further, the Group has also completed the calculation of the previous years' consumption since date of inception up to 31 December 2011 according to regulator decree mentioned above and has submitted the invoices to Saudi Aramco with total amount of SR 729 million.

During 2013, the Group has completed the reconciliation procedures with Saudi Aramco for these revenues and recognised them in the condensed consolidated statement of income. The Group is currently following up with Saudi Aramco the procedures to collect this amount.

**20 Capital commitments**

- (a) These comprise the unexecuted portion – as of the date of interim consolidated statement of financial position - of capital contracts conducted by the Group for the erection and installation of power plants and other assets approximately amounting to SR 199 billion (31 December 2016: SR 192 billion).
- (b) The Group has long-term energy purchase agreements with independent power providers whereby the Group has undertaken to purchase all energy produced by these providers according to specific terms and prices. These agreements are for periods up to 20 years, and renewable for further periods by mutual consent of both parties, in addition to the future commitments provided by the Group to finance certain investees in the form of subordinate loans or common equity as at 30 September 2017: nil (31 December 2016: SR 0.7 billion).

**21 Zakat**

The Group settled zakat payable as of 31 December 2008 and filed zakat returns for the year 2009 to 2016. These returns are being reviewed by the General Authority for zakat and income ("GAZT"). A claim with a total of SR 375 million has been received for years from 2009 to 2014 but the Group has rejected this claim and does not expect this claim to result in any future obligation.

The Group did not record Zakat for the period ended 30 September 2017 (2016: Nil) further to the negative zakat base relating to the reporting period. The Zakat expense shown in the condensed consolidated interim statement of income relates to Group's interest in joint operations.

**22 Revenue**

	Three months ended		Nine months ended	
	30 September 2017	30 September 2016	30 September 2017	30 September 2016
Electricity Sales	15,758,784	16,044,866	35,450,013	35,785,972
Meter Reading, Maintenance and Bills Preparation Tariff	313,916	298,797	931,656	885,614
Electricity Connection Tariff	692,822	575,246	1,915,466	1,666,103
Transmission Revenue	82,813	102,852	691,180	513,130
Other Operating Revenue	68,383	111,230	150,530	371,004
<b>Total</b>	<b>16,916,718</b>	<b>17,132,991</b>	<b>39,138,845</b>	<b>39,221,823</b>

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**23 Cost of Sales**

	Three months ended		Nine months ended	
	30 September 2017	30 September 2016	30 September 2017	30 September 2016
Fuel	3,232,123	3,516,132	7,331,259	7,840,232
Purchased Power	1,794,225	1,986,396	5,436,488	5,130,399
Operations and Maintenance	2,376,202	2,765,534	7,433,155	8,557,881
Depreciation - Operations and Maintenance	3,966,631	3,277,746	11,352,995	9,657,464
<b>Total</b>	<b>11,369,181</b>	<b>11,545,808</b>	<b>31,553,897</b>	<b>31,185,976</b>

**24 Other Income, Net**

	Three months ended		Nine months ended	
	30 September 2017	30 September 2016	30 September 2017	30 September 2016
Amortization of government grants	323,075	212,268	890,277	551,639
Other income and expenses	146	156,277	416,261	398,439
Gain / Loss on disposal of PP&E	(1,409)	(701)	10,257	4,137
Dividend received	13,760	14,940	31,079	18,788
<b>Total</b>	<b>335,572</b>	<b>382,784</b>	<b>1,347,874</b>	<b>973,003</b>

**25 Waiver of Municipality levy charges**

Based on the royal decree to cancel the electricity charge of 2% of the consumption for the municipalities, as well as exempting the group from paying the actual amounts due to the municipalities for the electricity charge from the consumption, the group reversed the outstanding balance in related to municipalities amounting to SR 6.1 billion as at 31 December 2016 from current liabilities to other income in the condensed consolidated interim statement of income for the first quarter of 2017.

**26 Human resource productivity improvements program**

The amount represents expenses the Company has commitment to pay in accordance with productivity improvement programs. The objective of this program is to improve and align human resources with working requirements.

**27 Earnings per share**

**Basic**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares outstanding.

**Diluted**

Diluted earnings per share is calculated by dividing the profit for the period by the adjusted weighted average number of ordinary shares outstanding during the period, to assume conversion of all dilutive potential shares into ordinary shares.

As at 30 September 2017 and 30 September 2016, diluted earnings per share is equal to basic earnings per share.

	Three months ended		Nine months ended	
	30 September 2017	30 September 2016	30 September 2017	30 September 2016
<b>Earnings</b>				
Profit for the period	5,261,865	4,928,408	12,429,230	6,372,104
Weighted average number of ordinary shares as at	4,166,593,815	4,166,593,815	4,166,593,815	4,166,593,815
<b>Basic and diluted earnings per share (SAR)</b>	<b>1.26</b>	<b>1.18</b>	<b>2.98</b>	<b>1.53</b>

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**27 Earnings per share (continued)**

For comparison purposes, earning per share after excluding the impact value of municipality levy liability waiver amounting of SR 6.1 billion as follows:

	Nine months ended	
	30 September 2017	30 September 2016
<b>Earnings</b>		
Profit for the period after eliminating municipality levy charges waiver	6,309,684	6,372,104
Weighted average number of ordinary shares as at	<b>4,166,593,815</b>	4,166,593,815
Basic and diluted earnings per share (SAR)	<b>1,51</b>	1,53

**28 Related-party transactions**

The Group ultimate controlling party is the Government of the Kingdom of Saudi Arabia. Saudi Aramco and Saline Water Conversion Corporation are companies under common control (both companies ultimately controlled by the Government of the Kingdom of Saudi Arabia).

The following transactions were carried out with related parties:

*(a) sales of electricity*

	Three months ended		Nine months ended	
	30 September 2017	30 September 2016	30 September 2017	30 September 2016
Sales of electricity:				
- Group ultimate controlling party	<b>3,453,466</b>	3,388,350	<b>8,795,385</b>	8,913,233
- Entities under control of the Group ultimate controlling party				
<i>Saudi Aramco</i>	<b>105,589</b>	270,774	<b>276,478</b>	455,194
<i>Saline Water Conversion Corporation</i>	<b>263,277</b>	56,946	<b>391,930</b>	160,637
<b>Total</b>	<b>3,822,332</b>	3,716,070	<b>9,463,793</b>	9,529,064

*(b) purchases of energy and municipality fees:*

	Three months ended		Nine months ended	
	30 September 2017	30 September 2016	30 September 2017	30 September 2016
<b>Purchases of energy:</b>				
- Entities under control of the Group ultimate controlling party				
<i>Aramco</i>	<b>3,342,544</b>	3,430,256	<b>7,982,926</b>	8,581,825
<i>Saline Water Conversion Corporation</i>	<b>128,001</b>	127,951	<b>445,343</b>	404,029
	<b>3,470,545</b>	3,558,207	<b>8,428,269</b>	8,985,854
Municipality fees:				
- Group ultimate controlling party	-	265,204	-	561,149
	-	265,204	-	561,149
<b>Total</b>	<b>3,470,545</b>	3,823,411	<b>8,428,269</b>	9,547,003

The Group purchases fuel from Saudi Aramco and power from Saline Water Conversion Corporation at rates stipulated for in the respective governmental resolutions.

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**28 Related-party transactions (continued)**

(c) *period-end balances arising from sales of electricity/purchases of energy/municipality fees*

	<u>30 September 2017</u>	<u>31 December 2016</u>
Due from related parties:		
- Group ultimate controlling party		
- Entities under control of the Group ultimate controlling party		
<i>Saudi Aramco</i>	1,464,255	1,320,944
<i>Saline Water Conversion Corporation</i>	821,610	439,451
<b>Total Due from related parties</b>	<u>2,285,865</u>	<u>1,760,395</u>
Due to related parties:		
- Group ultimate controlling party		
<i>Transferred from Saudi Aramco</i>	57,200,589	57,200,589
<i>Municipality fees</i>	-	6,119,546
<b>Total Due to related parties</b>	<u>57,200,589</u>	<u>63,320,135</u>
- Entities under control of the Group ultimate controlling party		
<i>Saudi Aramco</i>	88,928,962	83,651,364
<i>Transferred to Government payables</i>	(57,200,589)	(57,200,589)
<i>Net payable to Saudi Aramco</i>	31,728,373	26,450,775
<i>Saline Water Conversion Corporation</i>	10,726,388	10,430,862

(d) *loans and grants from related parties*

	<u>30 September 2017</u>	<u>31 December 2016</u>
Loans and grants from the government:		
- Group ultimate controlling party		
<i>Government Loan</i>	43,876,349	42,411,517
<i>Deferred government grant</i>	45,777,331	46,667,608
<i>Public Investment Fund (Note 15.1.1b)</i>	1,508,640	1,616,160
	<u>91,162,320</u>	<u>90,695,285</u>

(e) *key management compensation*

Key management includes members of the Board of Directors and members of the Executive Committee. The compensation paid or payable to key management for employee services is shown below:

	<u>30 September 2017</u>	<u>31 December 2016</u>
Salaries and other short-term benefits	3,613	3,680
Employees' end of service benefits paid	11,414	-
<b>Total</b>	<u>15,027</u>	<u>3,680</u>

**29 SUBSEQUENT EVENTS**

The General Investment Fund "the Fund" signed a non-binding memorandum of understanding Soft Bank Vision Fund "SBVF" on Monday 3 Safar 1439H (corresponding to 23 October 2017) which exclusively states the following:

- The Fund and SBVF through the Company will develop 3 Gigawatt of solar energy in the Kingdom in 2018.
- The government of the Kingdom of Saudi Arabia will continue to be the controlling shareholder in the Company and to provide the same level of support to the Company. Accordingly, the parties will assess SBVF ownership of a big share in the Company.
- The Fund and SBVF will establish industrial and solar energy storage utilities and will create related jobs in the Kingdom of Saudi Arabia. All parties will conduct necessary and obligatory professional care in order to complete these studies by 28 February 2018.

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**30 Non-cash transactions**

Investing and financing transactions that do not require the use of cash or cash equivalents are excluded from the statement of cash flows.

For the nine-months period ended 30 September 2017, the principal non-cash transaction is the write-off of the Municipality levy for which a decree of the Ministers Council was issued and which decided to waive these fees amounting to SR 6.1 billion.